Waste Management, Inc. 1973 Annual Report

1973 Annual Meeting
The 1973 Annual Meeting of Shareholders will be conducted at 10 a.m., Friday, May 10, 1974, in the Main Ballroom of the Sheraton Oakbrook Motor Hotel, 1401 West 22nd Street, Oak Brook, Illinois.

To keep this report current please insert interim reports for the quarters ended:

March 31, 1974
June 30, 1974
September 30, 1974

Five Year Financial Summary**

($000's omitted except per share amounts)	1973	1972	1971	1970 (unaudited)	1969 (unaudited)
Revenue	$ 132,110	$ 97,730	$ 75,786	$ 60,334	$ 47,749
Income before income taxes	15,951	11,378	8,254	5,641	4,609
Net income for the year	8,573	6,221	4,520	2,963	2,715
Earnings per share*	.86	.67	.56	.40	.37
Average number of common shares outstanding*	10,007,059	9,240,595	8,067,228	7,448,451	7,262,516

*Reflects retroactive effect of reorganization and 4-for-1 stock split in 1971, 2-for-1 stock reclassification in 1972, and 3-for-2 stock reclassification in 1973.

**The summary retroactively reflects companies acquired through December 31, 1973, and accounted for as poolings of interests.

Waste Management, Inc. and Subsidiaries
Five Year Composite Growth Analysis (Unaudited)

($000's omitted)

REVENUE	1973	1972	1971	1970	1969
Companies included in 1971 annual report	$ 29,535	$21,505	$16,825	$11,859	$ 8,507
Growth Rate	37.3%	27.8%	41.9%	39.4%	—
Companies acquired in 1972	$ 83,144	$63,129	$49,076	$40,679	$33,057
Growth Rate	31.7%	28.6%	20.6%	23.1%	—
Companies acquired in 1973	$ 19,431	$13,096	$ 9,885	$ 7,796	$ 6,185
Growth Rate	48.4%	32.5%	26.8%	26.0%	—
Total	$132,110	$97,730	$75,786	$60,334	$47,749
Composite Growth Rate	35.2%	29.0%	25.6%	26.4%	—
INCOME BEFORE INCOME TAXES*					
Companies included in 1971 annual report	$ 6,009	$ 4,361	$ 2,761	$ 1,813	$ 1,352
Growth Rate	37.8%	57.9%	52.3%	34.1%	—
Companies acquired in 1972	$ 8,099	$ 6,600	$ 4,952	$ 3,320	$ 2,674
Growth Rate	22.7%	33.3%	49.2%	24.2%	—
Companies acquired in 1973	$ 1,843	$ 417	$ 541	$ 508	$ 583
Growth Rate	342.0%	(22.9%)	6.5%	(12.9%)	—
Total	$ 15,951	$11,378	$ 8,254	$ 5,641	$ 4,609
Composite Growth Rate	40.2%	37.8%	46.3%	22.4%	—
Income before tax as a % of Revenue	12.1%	11.6%	10.9%	9.3%	9.7%

*After allocation of Waste Management parent costs between companies acquired in 1973 and 1972 and companies included in 1971 annual report based on relative sales volume.

The above represents, in some cases, management's best estimates. Specific identity of acquired companies is frequently lost due to internal mergers and consolidations.

Letter to Our Stockholders

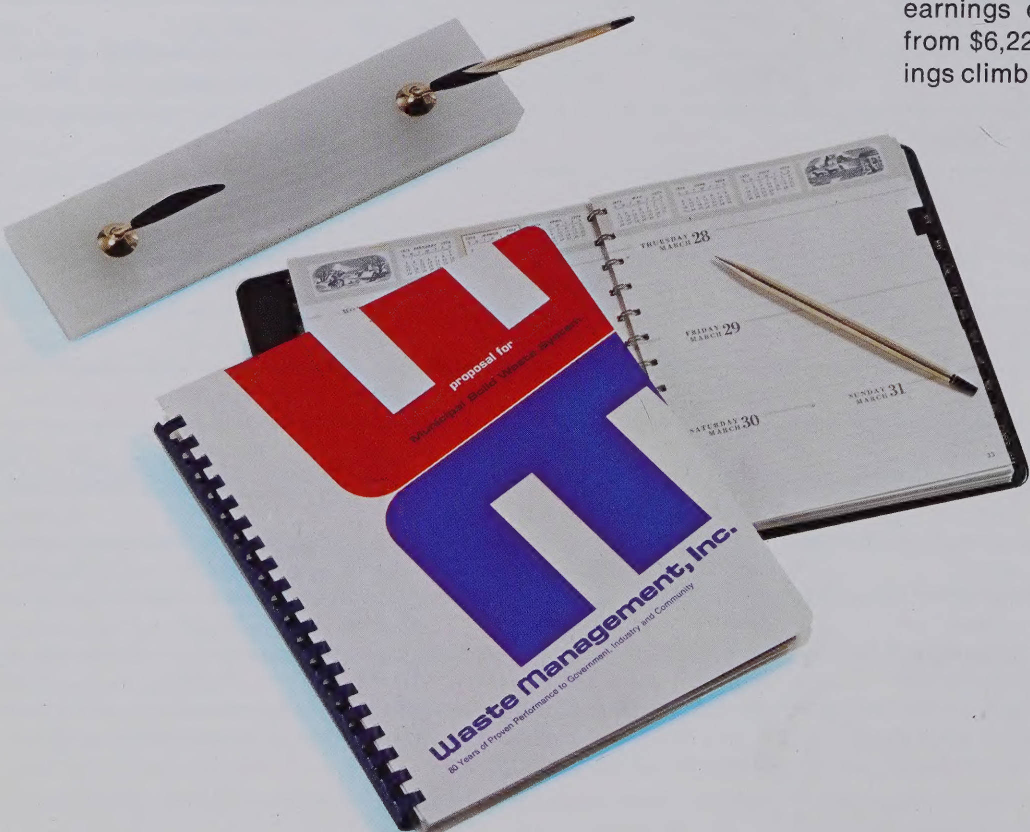
1973 was a year of targeted accomplishment for Waste Management, Inc.—a year in which we achieved record revenues and earnings in each successive quarter, maintained our planned program of internal growth and effectively expanded our management and technical capabilities to better serve our local operating divisions.

In addition, Waste Management, Inc. common stock was approved for listing on the New York Stock Exchange, and trading of our stock under the new symbol "WMX" began over that exchange on October 25, 1973.

We were particularly gratified at our ability to expand operating margins during a year in which interest costs, fuel costs and other operating costs increased substantially. The past year can, in many respects, be viewed as the "acid test" for the quality of our operating companies and for the financial reporting and control program in which we invested so heavily even before we had our first public offering.

"Looking back, 1973 was an extremely satisfying year. We achieved nearly every objective we had set for ourselves. With the very modest acquisition activity of last year, all that we accomplished can be attributed to the operational efficiency of our company."
—Dean L. Buntrock,
Chairman of the Board

Our revenues for the year climbed 35 percent to $132,110,000 from $97,730,000, while our earnings climbed 38 percent to $8,573,000 from $6,221,000. On a per-share basis, earnings climbed 28 percent to 86-cents per share



"First and foremost, we are an operating company. Our entire support staff—including our engineering professionals, our computer and systems specialists, and our financial people—is here to ensure that our operations are the most efficient in the country."

—H. Wayne Huizenga
Vice-Chairman of the Board

from 67-cents per share. All numbers have been restated to reflect acquisitions completed through December 31, 1973.

In almost every respect, these results are right on the mark. We increased our overall customer base to include over 1,000,000 residential, commercial, industrial and municipal customers at the close of 1973. We expanded our commercial and industrial customer base from 71,000 accounts to 106,000, and we expanded our services to local government to include 117 municipal franchises and contracts at year's end.

Our computerized management reporting system has made it possible for monthly corporate review of budgeted vs. actual performance for each of the 300 profit centers found within our 95 operating divisions within 14 days of the close of the month. Each of our operating divisions has been completely integrated into this reporting system.

Capital intensive equipment, such as this $250,000 dragline at one of our midwest sanitary landfills, requires experienced management for effective cost-control.

All variances within each division's profit plan are immediately reviewed, and prompt corrective action can be taken whenever necessary. Positive variances are also reviewed for possible application in other operating divisions.

We have improved financial controls through computerized billing for over 50 percent of our commercial and industrial business, and payrolls and disbursements are being phased into the centralized system on a scheduled basis.

We have also greatly strengthened our corporate ability to provide technical assistance to our local operating divisions in such vital areas as: environmental management, facilities engineering, resource recovery, liquid waste management, maintenance, purchasing, and bid preparation for local government contracts.

Early in the year, we undertook an extensive search to find the nation's most respected environmental engineers in order to assure that our own planning and quality control programs would be second to none. Our investigations indicated that a San Jose, California, firm—Emcon Associates—was doing much of the landmark work in this area. Early in 1973, we succeeded in merging Emcon Associates into Waste Management. Emcon's founding President, Peter Vardy, has been named Vice President—Environmental Management & Technical Services.

The year also witnessed establishment of a management training program designed to assure continuity of management as our company continues to grow and evolve. A fulltime Director of Training and Management Development has been assigned responsibility to administer the 18-week initial training program, and to monitor individual development of participants as they prepare for their careers with the company.

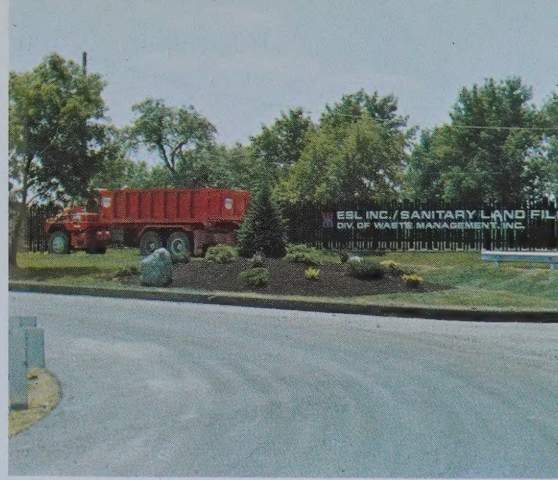
Our national sales program is equally encouraging. Nearly 100 fulltime professional salesmen are now participating in this corporately coordinated sales program, and we plan to add approximately 50 new people to our professional sales organization during 1974. Our national sales coordinator and his staff work with this sales force throughout the year, and a formal sales training program has been inaugurated. The entire sales effort is well-planned and goal-oriented in a manner that allows monthly evaluation of each salesman's effort relative to achievement of his prescribed sales goal.

Our corporate development effort also underwent a planned, but nonetheless fundamental, change in direction in 1973, as concentration shifted from heavy acquisition activity to planned national pursuit of substantive internal growth. We intend to be a major contender for every attractive waste management opportunity that presents itself anywhere in the United States.

We believe that the opportunities to bring better and more innovative solutions to communities throughout the nation will grow significantly during the months and years ahead. We will continue to look to our corporate development staff to evaluate each opportunity, and to develop and coordinate our corporate response in those cases offering significant potential.

Acquisition of the Chicago-based paper processing and brokerage business of the Lissner Paper Company in late December, 1972, has provided an excellent entry into an industry closely related to our basic solid waste management activities. The acquisition followed an earlier entry into the secondary fiber industry, when the Los Angeles-based paper recovery operations of Universal By-Products were acquired as part of our California company's solid waste management business.

We have since established paper recovery operations in Detroit, Michigan, and are planning expansions into several of our other solid waste management service communities. As the year closed, our paper recovery operations were processing and brokering 300,000 tons of paper stock per year.



Waste Management of Chicago General Manager Jake Meyer discusses our 850-ton-per-day transfer station with two of his 10 over-the-road drivers.

Large roll-off containers provide efficient, closed storage of compacted commercial solid wastes.

Environmentally-sound disposal of collected wastes is assured through totally engineered sanitary landfills.

We have negotiated unique contracts for marketing secondary fibers to the paper manufacturing industry which insulate Waste Management from most of the speculation so traditional to the paper stock business. These agreements allow us to afford our customers a "recycling credit" as an inducement to separate valuable fibrous materials at the source of generation.

Other important developments include the exemption of our industry from Phase IV Price Controls by the Cost of Living Council, and the assignment of a high priority status for our industry by the new Federal Energy Office.

Waste Management, Inc. played a key role in developing and supplying data used in both of these important public policy decisions. The case for high priority status for our industry was first presented to the federal Office of Oil and Gas by President Harold Gershowitz and other industry leaders last summer.

By quantitatively demonstrating the direct relationship of curtailed service to uncollected tonnage, we were able to establish the need for maintaining uninterrupted sanitation services in the United States during the current energy crisis. We and other industry leaders supplied the National Solid Wastes Management Association with voluminous data relative to the solid waste tonnage managed with the fuel we consume. As a result of these efforts, the sanitation industry—both public and private—was, on January 11, 1974, allocated 100 percent of the fuel required for current need.

We also strengthened our officer group during the year with election of Richard Leitzen as Controller in early March. Shortly after the close of the year J. Steven Bergerson was elected General Counsel—a position in which he served by appointment since August. Both men joined Waste Management in early 1973—providing strong corporate backgrounds in their respective professions.

Finally, our new Industrial Relations Department performed extremely well during its first full year of activity. Waste Management has 36 separate labor contracts, 22 of which were subject to negotiations during 1973. We believe these negotiations were conducted and concluded with a degree of professionalism which reflects well upon our company and our industry.

We hope this annual report will serve to answer questions you might have about the company's progress during the past year. We have tried to make our 1973 report to shareholders both informative and interesting.

Sincerely,

Dean L Buntrock

Dean L. Buntrock
Chairman of the Board

H. Wayne Huizenga

H. Wayne Huizenga
Vice Chairman of the Board

Organization

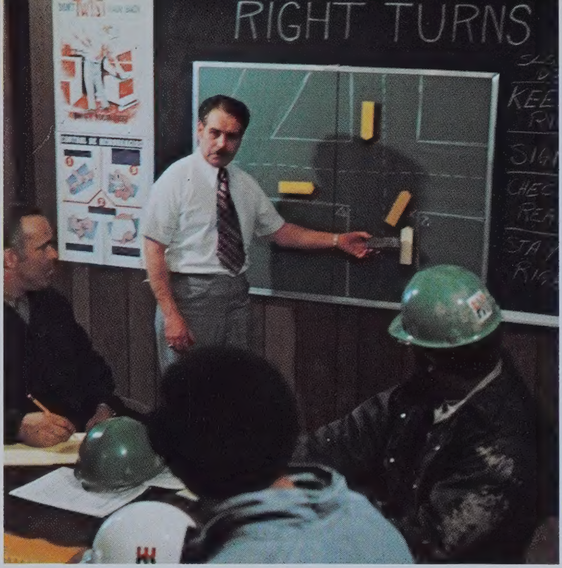
We believe our company's organization has been strengthened during 1973 in a manner that allows us to be as responsive to the demands of our business as is possible at the present time. Nonetheless, we must always be ready to "fine tune" our organizational structure to assure continued responsiveness to the challenges and opportunities that confront us, and to improve the efficiency with which we provide our service.

For example, during 1973 we formalized and refined our regional management concept to include seven distinct operating regions. Three veteran solid waste management professionals have been elevated from within the company to positions as corporate vice presidents—joining Executive Vice President-Operations Phillip B. Rooney and Senior Vice President Lawrence Beck in our strengthened operations executive group. Others have been promoted to regional manager and assistant regional manager posts. This new regional structure establishes a framework which allows each of the company's 95 operating divisions to interface with corporate management on a regularly scheduled basis. This assures local management of corporate support whenever necessary, and provides a clearly defined line of communications with corporate headquarters.

"No industry operates in an environment of greater challenge than does the solid waste management industry. We are an industry confronted by a magnitude of opportunity that is rare today. Ensuring that we are organized for maximum responsiveness is a primary responsibility of management."

—Harold Gershowitz
President

Early in 1973, we formed an Operations Policy Committee which meets weekly to review operating performance, and to consider and formulate basic operating policies for the entire company. This committee is comprised



Secretary Peter H. Huizenga (seated) and General Counsel J. Steven Bergerson direct shareholder relations and legal affairs for the company.

Safety and Loss Control Manager Romy Formentini (at blackboard) oversees a nationwide program of regularly scheduled safety meetings.

of Vice Chairman and Chief Operations Officer H. Wayne Huizenga, Executive Vice President—Operations Phillip B. Rooney, Senior Vice President Lawrence Beck and Vice President—Finance Donald F. Flynn.

As the year drew to a close, we also established a Program Evaluation Committee which will allow officers representing various management disciplines to regularly review and contribute to the development of the various new projects with which we anticipate becoming involved with greater regularity.

The new Program Evaluation Committee consists of Vice Chairman H. Wayne Huizenga; President Harold Gershowitz; Vice President—Corporate Development John J. Melk; Vice President—Finance Donald F. Flynn, and Vice President — Environmental Management & Technical Services Peter Vardy.

We consolidated our environmental management and technical development programs into our Department of Technical Services during 1973. Peter Vardy, Vice President—Environmental Management & Technical Services, coordinates all of the engineering activity of the company—as well as all activities attendant to the development of new technical capabilities, such as those inherent in energy conversion and liquid waste processing. Waste Management's entire environmental management program—including the environmental activities which our engineering subsidiary, Emcon Associates, performs for us—are under his direction.

We consolidated our management training activities, our personnel administration program and our industrial relations program into a new Department of Employee Relations. David C. Coleman, who previously directed our corporate industrial relations program, was named Director of Employee Relations in the Fall of 1973.

Our Management Services staff has been strengthened with the addition of talented professionals in the areas of purchasing, insurance management, safety, maintenance control, and bid evaluation and development—assuring that these responsibilities are discharged with a high degree of sophistication.

Finally, to ensure that every officer of the company maintains an appropriate level of involvement in the total corporation, each participates in weekly management meetings during which various areas of corporate activity are reviewed.

Corporate Development

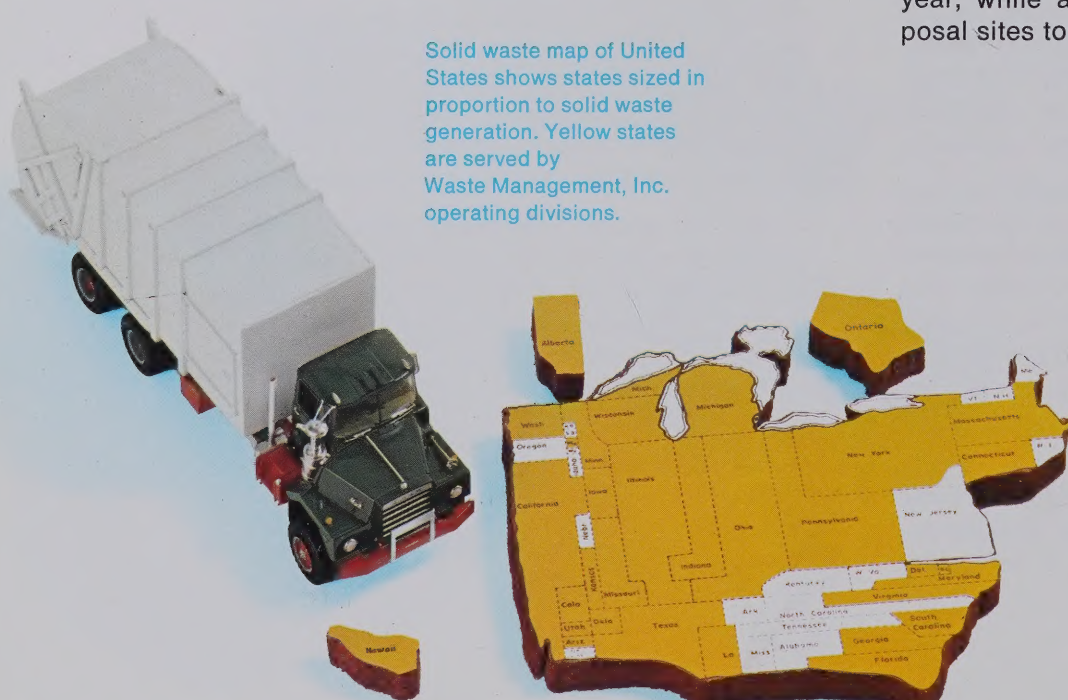
1973 ended with Waste Management substantially on target in achievement of our market entry and development goals. Our customer base has grown to include over 1,000,000 residential, commercial and industrial accounts—including over 25,000 new commercial and industrial customers added during the year.

During 1973, our operations were expanded to serve seven new states and 13 new service communities. Waste Management people and systems are now providing service in well over 100 communities in 27 states, the District of Columbia and two Canadian provinces. While we have substantially achieved our market entry goals as set forth in our initial marketing plan, Waste Management, Inc. will continue to investigate and pursue acquisition opportunities which further our corporate development.

"The industry is changing at a more rapid pace than ever before. Marketing success will belong to those who can read the change and anticipate where the real opportunities will be."

—John J. Melk
Vice President
Corporate Development

We recorded a net gain of 24 new municipal service contracts and franchises during the year, while adding 14 sanitary landfill disposal sites to our operations.



Solid waste map of United States shows states sized in proportion to solid waste generation. Yellow states are served by Waste Management, Inc. operating divisions.

We enter 1974 on the threshold of an exciting and challenging new era of opportunity for the company. Much of our 1974 corporate development effort will be concentrated on the pursuit of new and expanded services within existing service communities, and on selecting and effectively responding to the many new opportunities that are developing throughout the nation.

Corporate Development staff members are cooperating with local and regional management, and with our environmental management staff, in discovery and pursuit of new opportunities in innovative sanitary landfill disposal. Projects currently under consideration include large regional sanitary landfill disposal sites which would serve one or more large metropolitan communities, as well as projects involving rail or barge transportation of collected municipal wastes. We are also pursuing proposals to utilize collected wastes as valuable fill materials for construction of community recreational sites. In the regional solid waste transfer/sanitary landfill concept, wastes can be used to recontour abandoned strip mines and convert large useless acreage into valuable recreational, residential or commercial properties. Projects such as these are becoming increasingly attractive as more and more communities seek new solutions to their solid waste disposal needs.

Two examples of the key role the corporate development staff has played in development of existing disposal sites during 1973 would be our new ELDA Sanitary Landfill in Cincinnati, Ohio, and our new Evergreen site in Toledo, Ohio. The 106 acre ELDA Sanitary Landfill is part of the company today due to an opportunity discovered by a corporate development staff member as part of a preliminary market search. This centrally located sanitary landfill is already a prime disposal site for the City of Cincinnati's municipally collected refuse.

Efficient operations depend upon proper selection and management of work-force and equipment . . . this short-wheel base spotter tractor saves time in transfer station.

Transfer stations conserve both manpower and equipment by consolidating collected wastes into over-the-road trucks for transfer to outlying sanitary landfills.

Waste Management's new Evergreen Sanitary Landfill in suburban Toledo began receiving collected wastes in early December, climaxing a two year cooperative effort involving the corporate development staff and local operating division managment. In both instances, start-up tonnages met or exceeded initial planning estimates. This type of cooperative effort between corporate, regional and local marketing, sales and operating management is increasing as similar opportunities develop elsewhere.

We are also actively pursuing opportunities related to the use of processed waste materials as vitally needed fuels. We are studying numerous approaches to energy conversion and have devoted considerable effort to the evaluation of the potential of waste gasification, as well as the use of processed waste as a solid fuel supplement. Shortly after the close of 1973, we entered into a joint agreement with the Advanced Technology Center of Allis-Chalmers Corporation to demonstrate—through construction and operation of a proposed pilot plant—the conversion of milled municipal solid waste into pipeline-quality natural (methane) gas.

Milled organic wastes which would be fed into special reactors are essentially identical to the milled refuse currently being used, on an experimental basis, in other energy conversion demonstration projects. Gasification, however, would eliminate the need to burn municipal wastes, and would produce a premium fuel which can be easily introduced into a community's existing gas distribution system.

Nearly three years of continuous operation of our Pompano Beach, Florida, Solid Waste Reduction Center provides Waste Management with proven day-in, day-out operating dependability in the type of solid waste processing necessary to convert collected solid wastes into a valuable source of energy, or to implement virtually any resource recovery program.

Recent legislation requiring a phased commitment to proper treatment and disposal of all industrial chemical wastes also represents an enormous opportunity for our company. We have assembled a staff of talented chemical waste processing professionals to develop the technology required to aggressively pursue these opportunities.

Our prototype liquid processing facility will be receiving industrial chemical wastes for treatment in 1974. Processing systems developed and refined at this test site will assist us in the development of systems for industrialized areas elsewhere in the nation. Current estimates of the total market for the treatment and proper disposal of industrial effluent run as high as 15 trillion gallons per year. Waste Management is committed to playing a leadership role in bringing liquid disposal solutions to the many industries that will be looking for such assistance in the near future.

We believe we are on the threshold of a marketing environment that no one in this indus-

try dared envision just a few short years ago. We anticipate being involved in a growing number of projects—most of which will be significantly larger in scope than those which have characterized typical waste management projects in the past. These projects will invariably involve an influx of "new customer dollars" into our industry . . . dollars which will, for the first time, be allocated to finance waste management services.

The first third of this decade can be viewed as the dawning of a new national commitment to more sophisticated environmental management of our nation's wastes. The balance of this decade should, indeed, see this commitment crystallized into new and exciting levels of service by the solid waste management industry.

It is the responsibility of the corporate development group to assure that Waste Management maintains its leadership posture in providing innovative—yet operationally dependable—solid waste services.

Waste Management, Inc. operating divisions provide waste storage, collection, transfer, processing and/or disposal services to customers in each of the following states and provinces:

Arizona	Massachusetts
California	Michigan
Colorado	Minnesota
Connecticut	Missouri
Delaware	New York
District of Columbia	Ohio
Florida	Pennsylvania
Georgia	South Carolina
Hawaii	Texas
Illinois	Utah
Indiana	Virginia
Iowa	Washington
Kansas	Wisconsin
Louisiana	Alberta, Canada
Maryland	Ontario, Canada

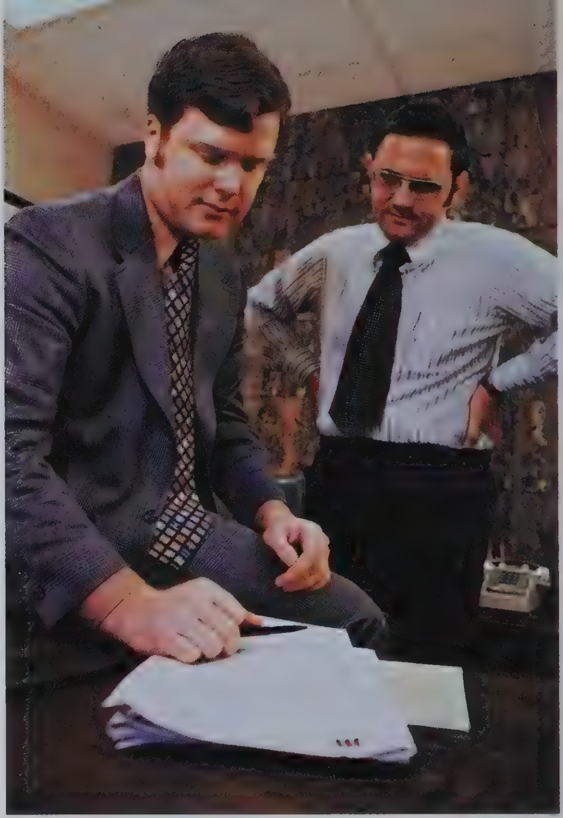
Waste Management and Allis-Chalmers announced plans for a proposed pilot plant to convert solid wastes into natural gas during a Chicago press conference in early February, 1974.

Visitors tour Pompano Beach reduction center. This WMI facility represents nation's most extensive experience in technology required for most resource recovery and energy conversion programs.

Surveyors, engineers, geologists and geotechnicians are necessary to plan and monitor environmentally-sound solid waste disposal.

Waste Management operates over 250 pieces of landfill equipment on its 56 sanitary landfills. This 30-ton sanitary landfill compactor is specially designed to compact and cover collected solid wastes.

Operations Management



At Waste Management, operational success is dependent upon effective management of more than 2,000 specialized collection vehicles, over 100,000 waste storage containers, approximately 1,200 stationary compaction systems, over 250 pieces of heavy-duty landfill equipment, more than 5,000 acres of sanitary landfill and various plant facilities in 27 states, two Canadian provinces, and the District of Columbia. Over 1,000,000 customers served by more than 4,000 WMI personnel in 95 operating divisions depend on Waste Management, Inc. for efficient management of their wastes.

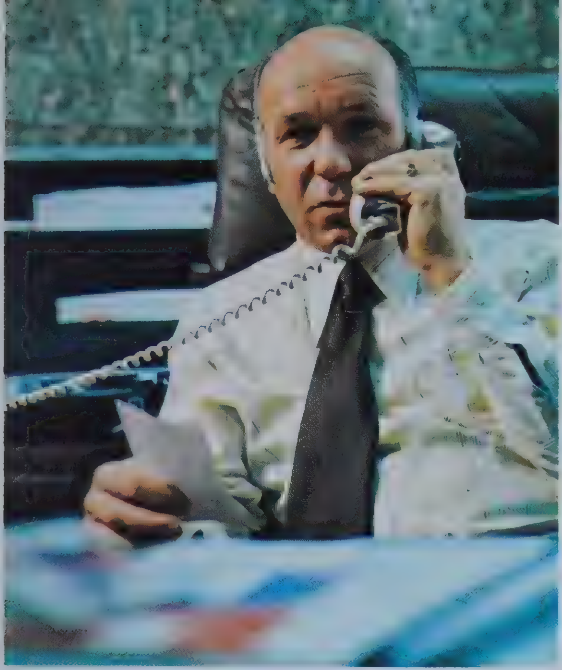
Our entire management organization—from corporate support personnel to our route foremen—is geared to provide maximum assistance to the operating division in its day-to-day waste management services. Financial Management, Legal Services, Management Services, Corporate Development and Environmental Engineering play a key role in supporting our people in the field.

"Waste Management, Inc. is more than just a strong operating company. It is 4,300 people—drivers, helpers, mechanics, route supervisors, dispatchers, secretaries, clerks, engineers, heavy equipment operators and professional managers—all of them contributing to and depending upon the company's success. It is management's job to provide these people with the assistance, equipment and motivation necessary to be the very best."

—Phillip B. Rooney
Executive Vice President—Operations

Each of these specialized professional services is necessary to continued successful growth—for the company, for its 4,300 employees, and for its several thousand shareholders.

Our Operations Management Program depends upon an accurate and timely flow of



Executive Vice-President-Operations Phillip B. Rooney and Director-Management Services Tom Frank supervise a staff of 21 management services professionals.

Senior Vice President Lawrence Beck works closely with region and local operations management, is a member of the Board of Directors and serves on the Executive Committee.

Vice Presidents Thomas Tibstra, Stanley Ruminski and William Buiten and Region Manager Donald R. Price discuss monthly operating reports.

information to and from the local operating divisions.

Operations were formally regionalized early in 1973 in order to facilitate the coordination of our operations program. Vice President Phillip B. Rooney was selected for the new post of Executive Vice President-Operations, and assigned overall executive responsibility for regional operations. Vice President Lawrence Beck was named to the newly created post of Senior Vice President. He participates in regional operations management in addition to his other executive duties with the company.

Tom Tibstra, Sr., a veteran of 31 years in our industry; William I. Buiten, a veteran of 14 years in solid waste management; and Stanley M. Ruminski, a veteran of 18 years with the company, were elected corporate vice presidents with responsibility for regional operations. Donald R. Price, who has served in key operating positions with Waste Management since September, 1970, was also elevated to the position of Region Manager.

Experienced solid waste professionals have been appointed to regional management posts and a regional controller has been named for each region. Each regional organization is structured to satisfy the needs and develop the opportunities within its own geographical area. Where necessary and desirable, regional offices are staffed with engineering and operating specialists to assist in local corporate development activities.

An automated management information system provides management—on a monthly basis—an analysis of actual vs. budgeted performance for each of our 300 profit centers within our 95 divisions. These reports are then reviewed with the regional controller prior to monthly analysis with the Operations Policy Committee. These monthly reviews of each region's performance assist local and regional management in meeting our corporate objectives.

For example, results from roll-off-body commercial collections in one operating division can be regularly compared to the same functional results in any of our other operating divisions, or with norms established for the

same function on a regional or national basis. In this manner, the experience gained in one operating division can be promptly and effectively applied to improve performance in any of our other divisions.

In addition to its regularly scheduled executive review of regional operating results, the Operations Policy Committee also has the final responsibility for review and approval of all proposed operational policies and procedures.

We also greatly strengthened our Management Services Department during the past year. This highly specialized group, under the direction of Thomas R. Frank, consists of professionals in the areas of insurance and risk control, safety, purchasing, maintenance, disposal operations, sales, route analysis, and pricing. The 21-man management services staff—as much as any other grouping within our nationwide organization—illustrates the growing entry of experienced professionals from throughout the business world into the solid waste management industry.

In a given week, the management services staff may be spread from coast to coast—providing municipal and industrial bid support to one operating division, implementing a preventative maintenance program for another, training a local sales force for another, establishing a safety program for still another . . .

The insurance and risk control staff has produced in excess of one million dollars in annualized savings through professional negotiation and management of insurance and bond premiums formerly paid by our various operating divisions. Local safety programs are being instituted on a regional and local basis throughout the company, and have resulted in significant reductions in the rate of personal injury accidents throughout the company. In addition, a formalized accident analysis program has been implemented to determine the cause of each accident and to help formulate corrective actions which will contribute to further progress in this area.

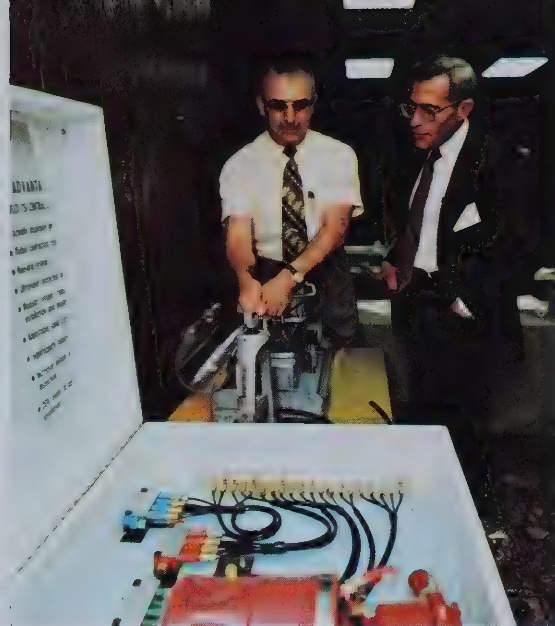
Our Manager of Safety and Loss Control is also participating as a member of several National Safety Council, government, and in-

dustry committees mapping national safety programs and standards for our industry.

The development of a national equipment maintenance program has also resulted in greater continuity of our maintenance control program, and should contribute substantially to continued improvement in this vital area.

Finally, our nationwide fleet of more than 2,000 specialized collection and transfer vehicles has been substantially upgraded during the past year. We believe we now have one of the youngest and most durable fleets in the entire industry.

Every facet of our company must be viewed as an integral component of a national operating system. The operations management program and the people who make that program work have produced a national waste management system of the highest calibre.



Waste Management, Inc. operating divisions provide processing, transfer, recovery and/or disposal services in the following communities:

CALIFORNIA
Lancaster
Los Angeles
Valencia

COLORADO
Denver

DELAWARE
Dover

FLORIDA
Delray Beach
Ft. Lauderdale
Hallendale
Jacksonville
Pompano Beach
Orlando

GEORGIA
Atlanta
Palmetto

ILLINOIS
Calumet City
Chicago
Elgin
Joliet
Kankakee

INDIANA
LaPorte
Kokomo
Michigan City
South Bend
Valparaiso

KANSAS
Kansas City
Topeka

LOUISIANA
New Orleans

MICHIGAN
Battle Creek
Detroit
Grand Rapids
Holland
Kalamazoo

MINNESOTA
Anoka

NEW YORK
Buffalo
Rochester

OHIO
Cincinnati
Columbus
Toledo

PENNSYLVANIA
Corry
Erie

TEXAS
Dallas

WASHINGTON, D. C.

WISCONSIN
Fond du Lac
Green Bay
Madison
Milwaukee

Canada
ONTARIO
Aurora
Toronto

Jacksonville, Florida, is one of many communities receiving residential collection through 117 contracts and franchise agreements with Waste Management operating divisions.

Hydraulically operated systems on modern collection vehicles demand qualified drivers with adequate training to ensure safe operation.

Front-loading vehicles speed collection of commercial and industrial solid wastes in many of the more than 100 communities served by Waste Management.

Chief mechanics and shop foremen from 14 key operating divisions participated in a recent 3-day maintenance seminar conducted by Director of Maintenance Bill Thon (left).

Environmental Management —Technical Services

Properly engineered sanitary landfills are a vital part of any solid waste management system. Even as resource recovery techniques are perfected and new processing, recovery and energy conversion plants become operational, the sanitary landfill will continue to play an important role as the final depository for residues which cannot be effectively or economically returned to the resource stream. At the present time, the sanitary landfill represents the safest and generally the most economical disposal technology.

Emcon Associates, the consulting engineering firm which joined Waste Management, Inc. in early 1973, functions as a consultant to the parent company. In addition, the firm will continue to serve as private consultant to government and industry, and will maintain strict confidentiality over its outside consulting services. Emcon and its principals have

"It is no longer sufficient to merely provide disposal service. The ability to ensure environmental enhancement with maximum conservation of our natural resources has become as important as the ultimate disposal of the waste residue."

—Peter Vardy
Vice President
Environmental Management &
Technical Services

gained national recognition for their service to government and industry in such areas as the design and environmental monitoring of sanitary landfills, and of hazardous, toxic and nuclear waste disposal sites; development of county and regional waste management plans; and the evaluation and design of solid waste handling, processing, resource recovery and energy conversion systems.

Our Environmental Management-Technical Services Department is charged with responsibility for all Waste Management's engineering and technical services—including the environmental monitoring and upgrading of the company's 56 sanitary landfills.

Vice President Peter Vardy and his staff are also responsible for the engineering and construction of all new operating facilities and waste processing plants; the evaluation and design of new sanitary landfill sites; and the design and construction of new chemical (liquid, semiliquid or solid) waste processing and disposal facilities.

All technical personnel, including the environmental management, facilities engineering and technical development staffs, report to Vardy's office. In this manner, an effective interchange is maintained among those charged with responsibility for day-to-day en-

Vice President Peter Vardy (right) reviews facilities drawings with director of technical development Dr. Eugene Nesselson and project manager Bob Peterson.

Analysis and control of wastes are key functions at EMCON Associates in San Jose, California.

Technical Development staff members meet to review progress in the company's liquid waste management program.

gineering and construction functions and those responsible for the long-range technical planning and development activities of the company.

Vardy's internal staff of Waste Management engineers, architects, chemists and technicians is supported by Emcon's professional staff of geologists, hydrogeologists, civil and chemical engineers, and laboratory technicians. In addition, Emcon Associates' modern laboratory facilities in San Jose, California, provide analytical, research and surveillance data on the physical and chemical characteristics of soil and rock materials, and on the chemical composition of leachates, gases, industrial wastes, and surface and groundwater supplies.

Waste Management's concern for environmentally-sound processing and disposal practices is more than an idealistic dedication. A modern sanitary landfill represents a major investment and is a vital element of the operating division's total waste management function within its particular service community. We consider it sound business practice to assure our customers and our service communities that their collected waste materials are being processed and disposed of in an environmentally-sound and operationally-reliable manner.

The technical development group is another important component of the Technical Services Department. This group of talented professionals is responsible for planning, designing and coordinating the development of Waste Management's first chemical waste processing facility soon to be constructed in the metropolitan Chicago area. A new, modern, 3,750 square-foot process development laboratory is currently under construction at Waste Management's CID site in Chicago. This new facility is being equipped with highly sophisticated analytical and research equipment, and will support our future company-wide waste process development needs.

Waste Management's technical development group is also responsible for monitoring, evaluating, developing and implementing advanced concepts and practices in the solid and liquid waste management field.

Our recently announced commitment to the construction of a pilot plant to demonstrate and evaluate the potential for economical generation of pipeline quality methane gas from urban refuse through anaerobic digestion techniques is but one of the innovative waste processing and energy conversion technologies on which our technical development group has been concentrating its efforts.

We are deeply committed to providing its customers and service communities with environmentally-sound, operationally-reliable and technologically-innovative waste processing, resource recovery and disposal facilities. The entire technical staff of Waste Management, Inc. is dedicated to the fulfillment of this commitment.

Financial Management

During 1973 total bank credits were expanded to $85,000,000 from the $12,000,000 in effect at December 31, 1972. Interest rates on the outstanding loans under the new agreements vary but range between prime and one-half of a point over prime. ($5,000,000 Canadian credit is at 1% over prime). $80,000,000 of these bank credits call for average compensating balances of approximately 15 percent.

As shown on the balance sheet, $65,150,000 of these credits had been utilized through December 31, 1973, and an additional $5,250,000 has been drawn down between December 31, 1973 and February 28, 1974.

These credits, together with estimated cash flow from operations, appear sufficient to finance the anticipated $35-$40,000,000 of capital additions during 1974.

The Waste Management capital budget for 1973 was approximately $43,000,000. The actual expenditures were approximately $47,000,000 as compared to this budget. The $53,000,000 reflected in the statement of changes in financial position includes the total appraised value of assets acquired in purchase transactions and the retroactive effect of capital additions of pooled companies.

"We believe that, largely as a result of the efforts of the dedicated personnel we have attracted, we have achieved our 1973 financial management objectives. These were to provide the financial resources to fund our growth, and to complete implementation of our centralized management information and control system necessary to provide the timely and consistent operating information for performance analysis and corporate planning."

—Donald F. Flynn
Vice President—Finance

Management intends, over the next 12 to 24 months, to strengthen the capital structure of the company, either through additional equity or an equity equivalent. It is anticipated that during 1974 certain existing facilities and landfills will be mortgaged and a portion of the company's revolving credit

Treasurer Robert A. Paul (seated) and Controller Richard Leitzen work closely with Vice President-Finance Donald F. Flynn.

Assistant Controller Ron Jericho (center) reviews data with regional controllers Tom Collins and Bob Brach.

converted or replaced by long-term debt. There are, however, several options available to the company and each will be closely evaluated before a decision is reached.

COMMON STOCK DISTRIBUTION

Most acquisition agreements entered into by the company allow acquired shareholders the opportunity to sell up to 20 percent of their stock per year on a cumulative basis.

The distribution of Waste Management stock at December 31, 1973, is as follows:

	NUMBER OF	
	Shareholders	Shares
Original Shareholders (including acquisitions prior to March 31, 1972)	165	3,150,000
Acquired Shareholders	289	2,800,000
"Public Shareholders"	2650	3,950,000
		9,900,000

1973 HIGHLIGHTS

Despite a year of unprecedented cost increases, we were able to achieve improved operating margins over 1972 levels. The following table summarizes, on a comparative quarterly basis, results for 1973 compared to 1972, after restating for all acquisitions through December 31, 1973, (000's omitted):

	QUARTER ENDED				
REVENUE:	March 31	June 30	Sept. 30	Dec. 31	Total Year
1972—As reported	$21,899	$23,838	$25,571	$26,422	$97,730
—Estimated effect of purchase acquisitions	—	149	921	1,518	2,588
	$21,899	$23,689	$24,650	$24,904	$95,142
1973—As reported	$30,534	$32,187	$33,116	$36,273	$132,110
—Estimated effect of purchase acquisitions	4,066	4,314	4,454	5,020	17,854
	$26,468	$27,873	$28,662	$31,253	$114,256
Internal Growth	$ 4,569	$ 4,184	$ 4,012	$ 6,349	$19,114
Percent	21%	18%	16%	26%	20%

	QUARTER ENDED				
NET INCOME*:	March 31	June 30	Sept. 30	Dec. 31	Total Year
1972	$ 1,211	$ 1,444	$ 1,752	$ 1,814	$ 6,221
1973	1,789	2,093	2,321	2,370	8,573
Growth	$ 578	$ 649	$ 569	$ 556	$ 2,352
Percent	47%	45%	33%	31%	38%
EARNINGS PER SHARE*:					
1972	$.14	$.17	$.18	$.18	$.67
1973	.18	.21	.23	.24	.86
Growth	$.04	$.04	$.05	$.06	$.19
Percent	29%	24%	28%	33%	28%

*Effect of purchase acquisitions cannot be accurately ascertained due to integration with existing entities or routes.

The above 1973 results include revenue of $5,300,000 from paper recovery operations and pre-tax profit of approximately $500,000. The Company follows the policy of recording fiber brokerage business on a net basis. If the brokerage revenue was recorded gross, total revenue from this activity would be approximately $12,000,000 with no change in pre-tax profit.

In addition to the income statement data presented above, the following balance sheet data provides further information to augment the basic financial statements included else-

where in this report. Other assets reflected on the balance sheet consist of the following items:

	1973	1972
Systems development costs	$1,143	$ 689
Start up and project development costs	375	211
Investments	1,028	845
Notes receivable	972	1,270
Other	442	312
	$3,960	$3,327

Systems development costs relate to the management information, billing, payroll and accounts payable systems developed over the last two years. These costs beginning in 1973 are being amortized to income over a five year period.

Start up and project development costs are costs being charged to income over the life of existing major contracts and costs incurred on projects in process. They include among others, engineering costs, consultants, options, and legal costs. These costs are matched with the revenue they produce when such a project becomes operational or expensed if a project or pending proposal fails to materialize. It is anticipated this type of activity will be increasing in the future as "special projects" (i.e. unique resource recovery projects, energy conversion, milling, baling, liquid waste disposal, long distance railhaul, etc.) become larger in scope with longer lead times.

Inventories at December 31, 1973 and 1972 were $3,177,000 and $1,497,000 respectively. This increase in inventories reflects increased involvement in fiber recovery, volume purchasing, establishment of in-house maintenance facilities and anticipated shortages and delivery problems in fuel, equipment parts and steel.

MANAGEMENT INFORMATION AND CONTROL SYSTEM

The overall financial management concept of the company is to have strong centralized accounting and financial control over each operating division with decentralized day-to-day operational responsibility.

From this standpoint, we have developed a centralized mechanized management information system which is implemented in all divisions. By the fifteenth of each month, management is provided with detailed information relating to the operations of each individual profit center for the previous month. This data compares monthly and year-to-date operating results to both budgeted objectives and to the profit center's results for the previous month.

Also, during 1973 the development of programming for billing, payroll and accounts payable was finalized and it is estimated that as of December 31, 1973,

A) 52% of our commercial and industrial billings were under centralized processing and control,
B) 20% of residential direct billed customers have been converted to the billing system, and
C) 35% of our employees were paid centrally.

A concentrated effort is now under way to accelerate implementation of centralized accounts payable to improve cash management and control.

Computerized operating and financial data is transmitted from outlying areas via remote entry equipment located in California, Florida and Wisconsin. Other locations will be added throughout 1974.

In addition to this basic management information system and attendant applications, significant strides were made in 1973 in the area of cash management. Concentration accounts, automatic wire transfers and zero-balance disbursement accounts were adopted to improve the flow of funds throughout the company.

Aside from the mechanical aspects of the control system, the foundation of any company, department or system is the people who make it function. We have attracted many experienced professional people to the financial department of the company, including 18 certified public accountants. Additionally, we have recruited college graduates directly from university campuses over the past two years. These men and women, together with the training they are receiving, provide a continuity of professional expertise to assist in the financial management of the company during the months and years to come.

In summary, from a personnel, systems, and control standpoint, 1973 was a year of significant progress in the financial area of the company. We look for further achievements in 1974.

Consolidated Statement of Income
(Note 2)

For the Years Ended December 31 ($000's omitted except per share amounts)	1973	1972
REVENUE	$ 132,110	$ 97,730
COSTS AND EXPENSES		
Operating	$ 88,967	$ 66,725
Selling and administrative	23,146	18,197
Income From Operations	$ 19,997	$ 12,808
OTHER INCOME (EXPENSE)		
Interest, net	$ (4,551)	$ (2,467)
Sundry, net	505	1,037
Income Before Income Taxes	$ 15,951	$ 11,378
INCOME TAXES (Note 1)	$ 7,378	$ 5,157
NET INCOME FOR THE YEAR	$ 8,573	$ 6,221
AVERAGE SHARES OUTSTANDING DURING THE YEAR	10,007,059	9,240,595
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE (Note 7)	$ .86	$ .67

The accompanying notes are an integral part of this statement.

Consolidated Balance Sheet

As of December 31 ($000's omitted)	1973	1972
CURRENT ASSETS		
Cash	$ 12,168	$ 9,401
Receivables, less reserve for doubtful accounts of $1,015 in 1973 and $898 in 1972	22,744	14,949
Inventory, at lower of cost (first in, first out) or market	3,177	1,497
Prepaid expenses	1,846	1,440
Total Current Assets	**$ 39,935**	**$ 27,287**
PROPERTY AND EQUIPMENT, at cost (Note 1)		
Land, including landfill sites	$ 18,973	$ 11,207
Buildings	8,808	6,333
Vehicles and equipment	118,389	84,000
Leasehold improvements	1,850	1,149
	$148,020	$102,689
Less-Accumulated depreciation and amortization	40,202	31,777
Total Property and Equipment, Net	**$107,818**	**$ 70,912**
OTHER ASSETS		
Intangible assets relating to acquired businesses, net (Note 3)	$ 17,875	$ 13,992
Other	3,960	3,327
Total Other Assets	**$ 21,835**	**$ 17,319**
Total Assets	**$169,588**	**$115,518**

The accompanying notes are an integral part of this balance sheet.

	1973	1972
CURRENT LIABILITIES		
Portion of long-term debt payable within one year (Note 4)	$ 11,475	$ 11,626
Accounts payable	7,042	7,953
Accrued expenses	5,994	2,934
Income taxes (Note 1)	2,164	2,799
Total Current Liabilities	$ 26,675	$ 25,312
DEFERRED INCOME TAXES AND INVESTMENT CREDIT (Note 1)	$ 11,851	$ 5,277
LONG-TERM DEBT, less portion payable within one year (Note 4)	$ 65,148	$ 28,253
STOCKHOLDERS' EQUITY (Notes 5 and 6)		
Preferred stock, $1 par value (issuable in series); 500,000 shares authorized; none outstanding during the years	$ —	$ —
Common stock, $1 par value; 20,000,000 shares authorized; 9,898,040 shares issued in 1973 and 9,792,311 in 1972	9,898	9,792
Paid-in capital	29,401	28,740
Retained earnings	26,665	18,194
	$ 65,964	$ 56,726
Less-Treasury stock, 14,985 shares, at cost	50	50
Total Stockholders' Equity	$ 65,914	$ 56,676
Total Liabilities and Stockholders' Equity	$169,588	$115,518

Consolidated Statement of Stockholders' Equity

For the Years Ended December 31, 1973 and 1972 (Notes 5 and 6) ($000's omitted)	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock
BALANCE, JANUARY 1, 1972, per 1972 annual report	**$5,199**	**$ 6,432**	**$11,363**	**$50**
Amounts applicable to pooled companies	450	380	1,416	—
BALANCE, JANUARY 1, 1972, as restated	**$5,649**	**$ 6,812**	**$12,779**	**$50**
Net income for the year	$ —	$ —	$ 6,221	$—
Net income of non corporate entities and Subchapter S companies	—	618	(618)	—
Adjustment for salaries and income taxes on non corporate entities and Subchapter S companies	—	361	—	—
Net income of pooled companies for short periods omitted from statement of income to convert to December 31 year end	—	—	14	—
Dividends and distributions paid by pooled entities prior to acquisition, net of capital contributions	—	(890)	(150)	—
Sale of common stock, net of expenses	800	23,783	—	—
Common stock issued in acquisitions accounted for as purchases	84	1,267	—	—
Proceeds from exercise of stock options	4	52	—	—
Amounts applicable to capital transactions of pooled companies	(9)	1	(52)	—
Transfer in connection with 3-for-2 stock reclassification effective May 1973	3,264	(3,264)	—	—
BALANCE, DECEMBER 31, 1972	**$9,792**	**$28,740**	**$18,194**	**$50**
Net income for the year	$ —	$ —	$ 8,573	$—
Net income of non corporate entities and Subchapter S companies	—	102	(102)	—
Adjustment for salaries and income taxes on non corporate entities and Subchapter S companies	—	(18)	—	—
Dividends and distributions paid by pooled entities prior to acquisition, net of capital contributions	—	(499)	—	—
Common stock issued in acquisitions accounted for as purchases	83	810	—	—
Proceeds from exercise of stock options	23	271	—	—
Payment in lieu of fractional shares in connection with 3-for-2 stock reclassification	—	(5)	—	—
BALANCE, DECEMBER 31, 1973	**$9,898**	**$29,401**	**$26,665**	**$50**

The accompanying notes are an integral part of this statement.

Consolidated Statement of Changes in Financial Position

For the Years Ended December 31 ($000's omitted)	1973	1972
WORKING CAPITAL WAS OBTAINED FROM		
Operations—		
Net income for the year	$ 8,573	$ 6,221
Depreciation and amortization	14,080	10,815
Provision for deferred income taxes	4,229	2,703
Amortization of deferred investment credit	(453)	(194)
Total From Operations	$26,429	$19,545
Increase in long-term debt (including debt assumed in purchase transactions)	$57,849	$37,481
Sale of common stock, net of expenses	—	24,583
Sale of property and equipment	2,367	3,300
Deferral of investment credit	2,067	1,170
Proceeds from exercise of stock options	294	56
Adjustment for salaries and income taxes on non corporate entities and Subchapter S companies	(18)	361
Common stock issued in acquisitions accounted for as purchases	893	1,351
Cash flow of pooled companies (including depreciation and other non-cash items of $295, net) for short periods omitted from statement of income to convert to December 31 year-end	—	309
Total Working Capital Obtained	$89,881	$88,156
WORKING CAPITAL WAS USED TO		
Purchase property and equipment (including appraised value of assets acquired in purchase transactions)	$52,779	$36,455
Decrease long-term debt	20,954	34,096
Pay dividends and make distributions by pooled entities prior to acquisition, net of capital contributions	499	1,040
Affect capital transactions of pooled companies	—	60
Make payment in lieu of fractional shares in connection with 3-for-2 stock reclassification	5	—
Decrease (increase) deferred income taxes	(731)	1,260
Increase intangible assets relating to acquired businesses, net	4,457	7,676
Increase other assets, net	633	236
Total Working Capital Used	$78,596	$80,823
INCREASE IN WORKING CAPITAL	$11,285	$ 7,333
ANALYSIS OF CHANGES IN WORKING CAPITAL		
INCREASE (DECREASE) IN CURRENT ASSETS		
Cash	$ 2,767	$ 6,313
Receivables	7,795	5,206
Inventory	1,680	869
Prepaid expenses	406	(336)
Total Increase in Current Assets	$12,648	$12,052
INCREASE (DECREASE) IN CURRENT LIABILITIES		
Long-term debt payable within one year	$ (151)	$ 766
Accounts payable	(911)	3,429
Accrued expenses	3,060	(214)
Income taxes	(635)	738
Total Increase in Current Liabilities	$ 1,363	$ 4,719
INCREASE IN WORKING CAPITAL	$11,285	$ 7,333

The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements

December 31, 1973 and 1972

Note 1. Summary of Accounting Policies

Principles of Consolidation

The Company's financial statements are prepared on a consolidated basis and include the Company and its subsidiaries, all of which are wholly owned at December 31, 1973. Affiliated companies which are more than 20% owned are included in the financial statements using the equity method of accounting. All significant intercompany transactions and balances are eliminated. Appropriate exchange rates are used to translate foreign currencies to United States dollars if a material difference in valuation is present.

Income Taxes

Effective for the year 1972, the Company adopted the "deferral method" of accounting for the job development investment credit. The deferred investment credit is recorded in income over the composite life of vehicles and equipment. The unamortized investment credit deferred to future years as of December 31, 1973, is $2,590,000.

Income taxes as shown in the consolidated statement of income consist of the following:

	1973	1972
Currently payable	$3,602	$2,648
Deferred to future years	4,229	2,703
Amortization of deferred investment credit	(453)	(194)
	$7,378	$5,157

A further analysis of the 1973 income tax expense follows:

	U.S. Federal	Foreign	State and Local	Total
Current	$2,614	$466	$522	$3,602
Deferred	3,799	102	328	4,229
Investment credit	(453)	—	—	(453)
	$5,960	$568	$850	$7,378

Deferred income tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. Deferred income taxes will be recognized as current liabilities in future years as such taxes become payable. The Company does not foresee a significant portion of the deferred tax liability becoming payable in the near future. The sources of these differences in 1973 and the tax effect of each were as follows:

Excess of tax over book depreciation	$2,416
Systems and project development costs expensed for tax purposes	749
Difference resulting from differing book and tax basis for acquired assets	698
Other items, net	366
	$4,229

Total income tax expense amounted to $7,378,000 (an effective rate of 46.3%), a total less than the amount of $7,656,000 computed by applying the U.S. Federal income tax rate of 48% to income before tax. The reasons for this difference are as follows:

Computed tax expense	$7,656	48.0%
State and local taxes, net of Federal benefit	442	2.8
Investment credit	(453)	(2.9)
Surtax exemptions	(114)	(.7)
Other, net	(153)	(.9)
	$7,378	46.3%

The Company and its subsidiaries file a consolidated Federal income tax return. Additional surtax exemptions result from filing short period tax returns for acquired companies.

Business Combinations

All businesses acquired as of December 31, 1973, and treated as poolings of interests have been included retroactively in the accompanying financial statements as if the companies had operated as one entity since inception.

During 1973, the Company centralized and standardized the financial records and reporting procedures of its subsidiary operations. In this connection, the accounting policies and procedures of the subsidiaries were conformed to those historically applied by the Company. These activities resulted in correction of certain inconsistencies and reclassification of various items in the 1972 financial statements to conform to 1973 classifications. These items had immaterial effects on the accompanying financial statements.

All businesses acquired as of December 31, 1973, and accounted for as purchases are included in the financial statements from the date of acquisition. Any

excess of the consideration paid over the appraised value of the net assets acquired is being amortized on a straight-line basis over 40 years.

Property and Equipment

Property and equipment (including major renewals and betterments) are capitalized and stated at cost. Items of an ordinary maintenance or repair nature are charged directly to operations. Landfills are carried at the lower of cost or estimated residual value. Landfill preparation costs are capitalized and charged to operations over the estimated usable life of the site. Operating costs are expensed as incurred.

Depreciation and Amortization

The costs of property and equipment are amortized by ratable charges to operations over the estimated useful lives on the straight-line method as follows: buildings—10 to 40 years; vehicles and equipment—3 to 10 years; leasehold improvements—over the life of the applicable lease.

Note 2. Business Combinations

During 1973, the Company acquired and treated as poolings of interests twenty-one businesses in exchange for 660,460 shares of its common stock. Additionally, for $4,725,000 in cash and notes and 83,256 shares of its common stock the Company acquired fifteen businesses accounted for as purchases. In 1972, eighty-one businesses were acquired in exchange for 3,680,028 shares of common stock in combinations treated as poolings of interests; twenty-four businesses and segments of twenty-six other businesses were acquired for $10,055,000 in cash and notes and 126,668 shares of common stock in transactions accounted for as purchases.

The effect of these transactions on revenue and net income is summarized as follows:

	Unaudited(3) 1973	1972
REVENUE		
Amounts applicable to entities included in 1971 annual report	$ 29,535	$21,505
Businesses acquired in 1972—		
Poolings of interests	68,721	60,541
Purchases	14,423	2,588
Businesses acquired in 1973—		
Poolings of interests	16,000	13,096
Purchases	3,431	—
	$132,110	$97,730
NET INCOME		
Amounts applicable to entities included in 1971 annual report	$3,227	$1,809(1)
Businesses acquired in 1972—		
Poolings of interests	3,853	3,814(1)
Purchases	378(2)	190
Businesses acquired in 1973—		
Poolings of interests	896	408
Purchases	219(2)	—
	$8,573	$6,221

(1) Corporate expenses are charged to acquired companies from the date of acquisition. 1972 reflects disproportionate corporate expense charged to entities included in 1971 annual report due to timing of acquisitions. See analysis on inside cover for full allocation of corporate expenses.

(2) Before effect of interest on acquisition cost.

(3) The above represents, in some cases, management's best estimates. Specific identity of acquired companies is frequently lost due to internal mergers and consolidations.

The following summarizes the effect of businesses acquired and accounted for as purchases in 1973 and 1972 had they been acquired as of January 1, 1972:

	Unaudited 1973	1972
Revenue as reported	$132,110	$ 97,730
Revenue of 1972 purchased businesses for period prior to acquisition	—	11,834
Revenue of 1973 purchased businesses for period prior to acquisition	2,328	5,759
Pro forma revenue	$134,438	$115,323
Net income as reported	$ 8,573	$ 6,221
Net income of 1972 purchased businesses for period prior to acquisition	—	661
Net income of 1973 purchased businesses for period prior to acquisition	161	305
Adjustment for interest and amortization of cost in excess of appraised value of net assets acquired	(105)	(689)
Pro forma net income	$ 8,629	$ 6,498
Earnings per share as reported	$ .86	$ .67
Effect of purchased businesses prior to acquisition	—	.03
Pro forma earnings per share	$ .86	$ .70

Note 3. Intangible Assets

Intangible assets relating to acquired businesses consist of the following:

	1973	1972
Cost of purchased businesses in excess of appraised value of net assets acquired, net of accumulated amortization (1973—$458, 1972—$176)	$17,239	$13,014
Covenants not to compete, net of accumulated amortization (1973—$940, 1972--$985)	636	978
	$17,875	$13,992

The cost in excess of appraised value of net assets acquired relating to businesses acquired subsequent to October 1970, is being amortized to income on a straight-line basis over a period of forty years.

Covenants not to compete are amortized over the lives of the agreements, generally five years.

Note 4. Debt

The details relating to debt (including capitalized leases) as of December 31, 1973 and 1972, are as follows:

	1973	1972
Bank credit agreement, interest ¼% over prime on first $32,000,000; ½% over prime on balance	$60,400	$17,550
Canadian bank credit agreement, interest 1% over prime	2,750	1,475
Bank lines of credit, interest at prime	2,000	1,950
Non-interest bearing to 10% mortgage notes payable through 1986	3,517	5,484
Non-interest bearing to 15% installment loans payable through 1983, substantially secured	6,638	8,055
Non-interest bearing to 10% notes payable through 1981, partially secured	1,318	5,365
Total debt	$76,623	$39,879
Less—current portion	11,475	11,626
Long-term portion	$65,148	$28,253

The long-term debt as of December 31, 1973, is due as follows:

Second year	$14,599
Third year	14,217
Fourth year	13,999
Fifth year	13,757
Sixth year and thereafter	8,576
	$65,148

During 1973, the Company expanded its revolving Credit Agreement with five banks whereby the Company can borrow up to $70,000,000 to the extent supported by a borrowing base. The borrowing base is 85% of the net book value of equipment as defined in the Agreement. The interest rate as of December 31, 1973, was ¼ of 1% above the prime rate in effect from time to time on the first $32,000,000 of this credit and ½ of 1% above the prime rate on the balance outstanding plus ½ of 1% on the daily average of the unused commitment during the term of the Agreement. In addition, an informal arrangement exists with the participating banks requiring average daily compensating balances of approximately 15% of the commitment. The effective rate of borrowing under this Agreement was approximately 12.6% at December 31, 1973, and the prime rate in effect at that time was 10.0%. The Agreement calls for conversion into five year term loans on June 30, 1974 (subject to extension to succeeding June 30ths with agreement by the Company and respective banks), with the principal payable in approximately 20 equal installments. The interest on the term loan would be at the prime rate in effect from time to time plus ½ of 1%.

Under the Agreement, the Company must, among other things, (1) not permit its consolidated current assets (including any unused portion of the borrowing base) to be less than 135% of its consolidated current liabilities (excluding all amounts payable under any current loan), (2) not permit its total liabilities to exceed two times its net worth (both as defined in the Agreement), and (3) not purchase or redeem any shares of its capital stock, pay any dividends (other than stock dividends), or make any other distribution to stockholders, or set aside any funds for such purpose, after December 31, 1971, in an aggregate amount exceeding 50% of the Company's consolidated net income earned after such date (retained earnings available for distribution to stockholders at December 31, 1973, and December 31, 1972, is approximately $7,397,000 and $3,111,000, respectively). There are also restrictions on additional borrowing (as defined), leasing arrangements and the magnitude of purchase acquisitions.

The Company has negotiated a similar agreement

with a Canadian Bank for loans up to $5,000,000 (Canadian), to the extent supported by 85% of the borrowing base of its Canadian subsidiaries, with interest on current loans at 1% over prime and 1½% over prime on term loans, and a commitment fee of ½ of 1% per annum. There are no compensating balances required under this agreement.

The maximum amount repayable within one year (10%), if the total debt under these agreements were converted to a term loan at the earliest possible time, is reflected as a current liability.

The Company also has a $10,000,000 unsecured line of credit from six domestic banks with interest at the prime rate in effect from time to time plus compensating balance requirements similar to those under the revolving Credit Agreement.

Note 5. Stock Options and Warrant

The qualified stock option plans of the Company provide that options (72,000 shares under the 1971 plan, 150,000 shares under the 1972 plan, and 300,000 shares under the 1973 plan) may be issued at a price equal to 100% of the market value on the date of grant. Under the plans, qualified options are for five-year terms and are exercisable in cumulative 20% installments after the first through the fourth years (100% after 4½ years). In addition to the qualified options, non-qualified options (for 108,000 shares) were granted at 100% of market value at the date of grant and can be exercised at any time prior to the expiration date.

The status of the qualified and non-qualified stock options during 1972 and 1973, is as follows:

	Shares	Option Price
1972		
Outstanding at beginning of year	152,685	$ 5.33-$13.17
Granted	119,115	16.33- 28.92
Became exercisable	26,733	5.33- 19.00
Exercised	3,522	5.33- 13.17
Cancelled	7,980	5.33- 13.17
End of year—		
Outstanding	260,298	5.33- 28.92
Exercisable	110,019	5.33- 19.00
Available for future grant	58,680	— —
1973		
Granted	201,570	$14.63-$23.17
Became exercisable	30,971	5.33- 28.92
Exercised	12,476	5.33- 19.00
Cancelled	27,520	5.33- 28.92
End of year—		
Outstanding	421,872	5.33- 28.92
Exercisable	119,793	5.33- 28.92
Available for future grant	184,630	— —

In connection with a merger, the Company assumed employee qualified stock options, which, pursuant to the merger agreement, were converted into options to purchase 13,380 shares of common stock at a price of $10.53 per share. Options to purchase 367 shares remained outstanding at December 31, 1973. In the same merger, the Company also assumed an outstanding common stock purchase warrant pursuant to which the holder thereof may purchase up to 110,340 shares of common stock at an exercise price of $10.20 per share prior to October 1, 1978, and at $12.24 per share thereafter, until its expiration on October 1, 1983.

Note 6. Capital Stock

During May 1973, the stockholders approved a 3-for-2 reclassification of the Company's common stock (effective May 1973). This stock reclassification was reflected as of December 31, 1972, and accordingly, approximately $3,260,000 was transferred from paid-in capital to common stock. Stockholders also approved an amendment to the Company's restated certificate of incorporation increasing the number of authorized shares of common stock from 10,000,000 to 20,000,000. All references to common shares in the consolidated financial statements have been retroactively adjusted to reflect the 2-for-1 stock reclassification in May 1972, and the 3-for-2 stock reclassification referred to above.

The Board of Directors has the authority to create and issue up to 500,000 shares of $1 par preferred stock at such time or times, in such form, with such designations, preferences, and relative participating, optional or other special rights and qualifications, limitations or restrictions thereof as it may determine. No shares of the preferred stock have been issued.

Note 7. Earnings Per Share

Earnings per share are computed on the basis of the weighted average number of common and common

equivalent shares outstanding during each year. Common stock equivalents relate to shares reserved for issuance under the Company's employee stock option plans and an outstanding warrant for purchase of common shares. The computation of fully diluted earnings per share does not differ materially from that presented in the consolidated statement of income. All earnings per share computations retroactively reflect the stock reclassifications referred to in Note 6.

The following table reconciles the number of common shares shown as outstanding in the consolidated balance sheet with the number of common shares used in computing earnings per share:

	1973	1972
Common shares outstanding per balance sheet (net of treasury shares)	9,883,055	9,777,326
Effect of shares issuable under stock options and warrant after applying the "treasury stock" method	148,942	175,718
Effect of using weighted average common shares outstanding during the year	(24,938)	(712,449)
Common shares used in computing earnings per share	10,007,059	9,240,595

Note 8. Legal Matters

Various lawsuits and claims are pending against, or may affect, the Company and its subsidiaries.

Two lawsuits based on the same allegations of fact have been instituted against three of the Company's subsidiaries and several other defendants for alleged violations of federal anti-trust laws and state anti-trust laws, respectively. The plaintiffs seek damages in each suit of $3,000,000 (trebled to $9,000,000). Based upon advice of counsel and their own knowledge of the circumstances, management believes that liability, if any, relating to the above or other existing actions will not materially affect the Company.

Note 9. Commitments

The Company leases several of its operating and office facilities for terms of one to twenty years. Annual rentals approximate $1,765,000 (including short-term cancellable leases approximating $400,000), and lease obligations aggregate approximately $5,963,000. These amounts are exclusive of financing leases capitalized for accounting purposes.

The long-term lease obligations as of December 31, 1973, are due as follows:

First year	$1,331
Second year	1,139
Third year	916
Fourth year	530
Fifth year	284
Sixth through tenth years	1,004
Eleventh through fifteenth years	629
Sixteenth through twentieth years	130
	$5,963

The Company has entered into various employment agreements with former owners of acquired businesses. These agreements generally cover a three-year period. Total aggregate compensation to be paid pursuant to these agreements is approximately $4,777,000, excluding any bonuses.

The obligation under employment agreements as of December 31, 1973, will be paid as follows:

First year	$2,420
Second year	1,796
Third year	424
Fourth year	137
	$4,777

Auditors' Report

To the Stockholders
and the Board of Directors
of Waste Management, Inc.:

We have examined the consolidated balance sheet of Waste Management, Inc. (a Delaware corporation) and Subsidiaries as of December 31, 1973, and December 31, 1972, and the related consolidated statements of income, stockholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Waste Management, Inc. and Subsidiaries as of December 31, 1973, and December 31, 1972, and the results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the years.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 21, 1974.

Officers and Directors:

Dean L. Buntrock*
Chairman of the Board and Chief Executive Officer

H. Wayne Huizenga*
Vice Chairman of the Board and Chairman of the Executive Committee

Harold Gershowitz
President

Lawrence Beck*
Senior Vice President and Director

J. Steven Bergerson
General Counsel

William I. Buiten
Vice President

Donald F. Flynn
Vice President—Finance

Peter H. Huizenga
Secretary and Director

Richard J. Leitzen
Controller

John J. Melk
Vice President—Corporate Development

Robert A. Paul
Treasurer

Phillip B. Rooney
Executive Vice President—Operations

Stanley M. Ruminski
Vice President—Operations

Thomas Tibstra, Sr.
Vice President—Operations

Peter Vardy
Vice President—Environmental Management and Technical Services

Olin Neill Emmons
Director
(Sr. V.P., The Chicago Corporation)

Arthur W. Glennie
Director
(Sr. V.P., Retired LaSalle National Bank)

*Members of the Executive Committee

Transfer Agent and Registrar:
Continental Illinois National Bank
and Trust Company of Chicago
231 South LaSalle Street
Chicago, Illinois 60690

Co-Transfer Agent and Co-Registrar
Morgan Guaranty Trust Company
of New York
140 Broadway
New York, New York 10015

You may obtain a copy of the Waste Management, Inc. 1973 Form 10-K by writing:
Waste Management, Inc.
900 Jorie Boulevard
Oak Brook, Illinois 60521
Attn: Donald F. Flynn
Vice President-Finance

Waste Management, Inc. common stock is traded over the New York Stock Exchange under the symbol (WMX), and is included in daily stock quotations in the Wall Street Journal and in many daily newspapers.

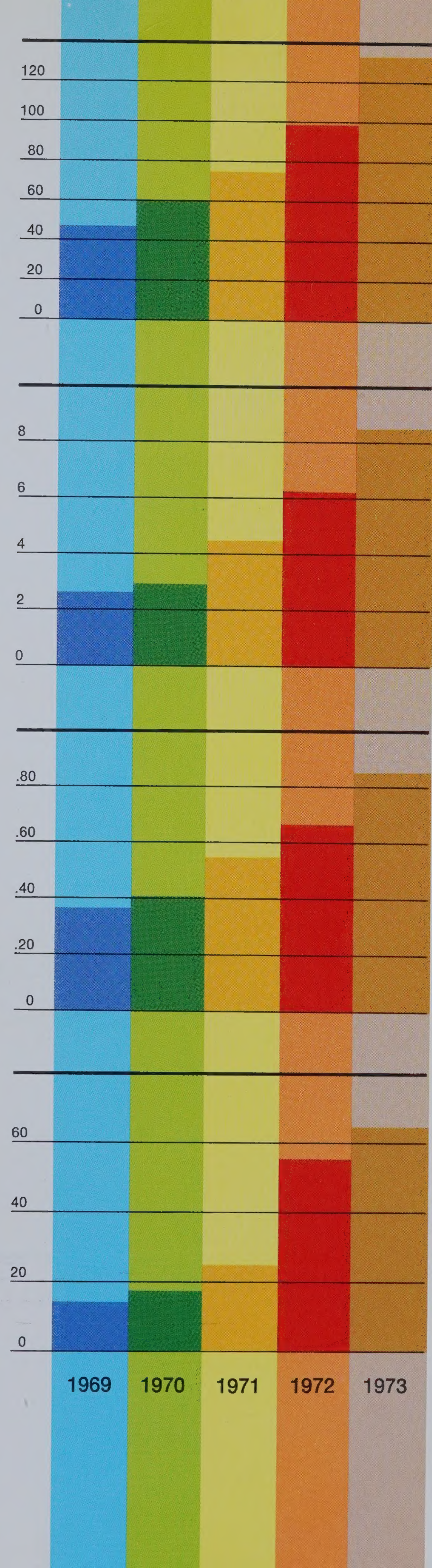
Waste Management, Inc.

Revenues
in millions of dollars

Net Income
in millions of dollars

Earnings
in dollars per common and common equivalent shares

Shareholders' Equity
in millions of dollars



Waste Management, Inc. • 900 Jorie Boulevard • Oak Brook, Illinois 60521